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SUBJECT: THE DRC AND THE PRGF: HOW WE GOT HERE AND HOW WE
GET THE DRC TO HIPC COMPLETION POINT

REF: A. 08 KINSHASA 918
¶B. 08 KINSHASA 426
¶C. 08 KINSHASA 1105
¶D. 08 KINSHASA 1100
¶E. KINSHASA 520
¶F. JAFFEE-MANZ/LAMORA EMAIL 11/03/2009
¶G. JAFFEE-EEB/TREASURY EMAIL 11/19/2009
¶H. KINSHASA 1079
¶I. JAFFEE-MANZ/LAMORA EMAIL 11/10/2009

Classified By: Ambassador William J. Garvelink for reasons 1.4 (b) and (d)

¶1. (C) Summary: This is the first in a two-part series on the GDRC's long road towards HIPC completion point, with a look at some of the many bumps and turns along the way since early 2006 and the IMF Board's December 11 approval of the DRC's Poverty Reduction and Growth Facility (PRGF). The PGRF reflects a key opportunity for the government of the DRC (GDRC) to finally break its long cycle of indebtedness, as well as to address key structural impediments and implement sound fiscal and monetary policies. The GDRC rightly views the approval of the new IMF program as a significant achievement, particularly following a gap of three years since falling out of compliance in 2006 with their previous program and the significant political decision taken in June/July to renegotiate the Sino-Congolese agreement. While many of the structural measures included as triggers in the new PRGF are well underway -- in large part due to the program's retroactive July 2009 start date -- the GDRC will not achieve the end goal of HIPC completion point without a significant, sustained and high-level commitment to cntrol spending. Emergency spending has been, and will continue to be, the greatest risk for the DRC to achieve what it could not in 2006: HIPC completion point. With competing and vested interests from many ministries, a weak Prime Minister, and many legitimate pressures (including security spending and salaries), the active engagement of President Kabila in controlling his government's spending will be key. Donors, including the United States, can and must play a key role in engaging and supporting the President in this effort. The second installment of this series lays out what the GDRC must do to reach HIPC completion point. End summary.

What a long and strange trip it's been

¶2. (SBU) The December 11 IMF Board approval of the DRC's new PRGF comes after a three-year long gap in a formal IMF program. In March 2006, the DRC failed to meet its final review under its previous program due to fiscal slippages and

inadequate progress on structural reforms. The DRC did maintain a non-disbursing Staff Monitored Program (SMP) with the IMF, and managed to make some progress in its monetary and fiscal programs. Accompanied by high international prices for the DRC's key export commodities (largely minerals and petroleum), the DRC's macroeconomic climate was on a largely positive projectory: higher GDP growth rates, lower inflation, and a stable exchange rate. The GDRC also continued to work closely with the IMF to re-establish a formal IMF program. Despite these positive trends, however, little progress was made towards entering into a new formal IMF program.
QIMF program.

¶3. (SBU) Two key developments impacted the GDRC's relationship both with the IMF and its progress towards re-establishing a new PRGF. First, in early 2008, the GDRC concluded a (at the time) $9.2 billion minerals-for-infrastructure agreement with the Chinese government (refs A and B). The Sino-Congolese agreement immediately raised concerns among both multilateral and bilateral donors regarding the loan agreement's impact on the DRC's debt sustainability. At issue were both the agreement's sovereign guarantees by the GDRC in the mining portion, and the concessionality of the infrastructure loans. Throughout 2008 and the first half of 2009, neither the Chinese nor the GDRC indicated any real willingness to revise the agreement to ensure compatibility with debt sustainability. The Chinese, in fact, made several press statements that strongly indicated an unwillingness to renegotiate the agreement, including at one point accusing the IMF of "blackmail." The GDRC appeared either unwilling

or unable to engage the Chinese.

Economic crisis a catalyst for new direction

¶4. (SBU) The global financial crisis, and the sudden and negative impact on the DRC's economy starting in late 2008 (refs C and D) considerably changed both the economic and political dynamics in the DRC -- and the GDRC's position on renegotiating the Sino-Congolese agreement. Throughout late 2008 and early 2009, the DRC's economy continued to destabilize and deteriorate. The DRC's local currency, the Congolese franc (FC) depreciated by twelve percent against the U.S. dollar in one day alone in mid-January; international reserves had reached close to zero. The international community responded decisively and quickly to help stabilize the economy and ensure continuation of basic services. Emergency international assistance provided by the IMF, World Bank, EU and African Development Bank in February and March 2009 was critical in stemming further economic deterioration. It also provided the GDRC with the breathing room to take the important next step on the Sino-Congolese agreement.

Strauss-Kahn to Kabila: wake up and smell the coffee
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¶5. (C) In May 2009, IMF Managing Director Strauss-Kahn visited the DRC (ref E) and met with President Kabila. While the visit was ostensibly to discuss the impact of the global financial crisis on a number of African countries, in reality, howeer, it was used to push the GDRC to take the necessary political steps to engage the Chinese on renegotiating the Sino-Congolese agreement. Sources present at the meeting between Strauss-Kahn and Kabila told econcouns that Kabila appeared genuinely surprised and unaware of the problematic provisions in the Sino-Congolese agreement and the required steps to allow for the DRC to establish a new PRGF. Post believes Kabila was almost certainly not well informed on the issue prior to the Strauss-Kahn visit. In June, the GDRC took the first steps in engaging the Chinese on renegotiation of the agreement.

¶6. (C) From post's viewpoint, this move, after many months of inaction, was likely a result of Kabila finally engaging directly on the issue. The deteriorating economic situation certainly supported the timing of this move; however, it is unclear that Kabila would have fully understood what was needed, or been willing to take the political decision, in the absence of the Strauss-Kahn visit. During the IMF staff mission's early November visit to the DRC (ref F), the IMF informed donors that the amended agreement had been finalized and signed by all parties. Specifically, the amended agreement included the removal of the sovereign guarantees in the mining portion (totally $3.2 billion) and increasing the concessionality of the infrastructure portion (including removing the $3 billion second tranche infrastructure project). While the interests of the Congolese in renegotiating the agreement were clear -- possible HIPC debt relief -- the willingness of the Chinese to take this step following literally months of strongly-worded public
Qfollowing literally months of strongly-worded public
statements to the contrary, remains unclear to us.

Next stop Paris

¶7. (C) With the major sticking point resolved (i.e., issues related to the debt sustainability of the Sino-Congolese agreement), approval of a new IMF program seemed on track. The expectation of both donors and the GDRC was that the November 18 Paris Club tour d'horizon would result in financing assurances, thus allowing the PRGF to be presented at the December IMF Board meeting. Instead, Canada, at the last minute, refused to provide financing assurances over concerns related to the DRC's investment climate and the treatment of several Canadian investors. To ensure consensus among Paris Club creditors, the Paris Club Secretariat provided Canada a week to work with the GDRC to resolve the outstanding issues. (Note: The Canadian government initially claimed their actions were prompted by the GDRC's announcement on November 14 of the finalization of the mining contract review process, including upholding the cancellation

of Canadian company First Quantum's contract. Post finds this story somewhat disingenuous -- the GDRC had initially canceled the contract in August 2009 and had repeatedly re-launched negotiations with the company. In addition, U.S. investor Freeport-McMoRan, the largest investor in the mining sector and subject to the same contract review as First Quantum, has yet to finalize its contract. (Note: The mining contract review process was initiated in 2007 and has been plagued by delays and a lack of transparency. End note.) Rather than resulting in any tangible improvements to either the investment climate or resolution of outstanding Canadian commercial disputes, Canada's actions resulted in a week of confusion among donors and the GDRC alike, erroneous local press articles, and an angry GDRC.

¶8. (C) On November 19, the first of a series of press articles appeared in several major DRC newspapers, inaccurately claiming that both Canada and the United States had not provided financing assurances at the November 18 Paris Club meeting due to concerns over the treatment of their major investors in the mining sector. In response, econcouns actively engaged with the GDRC (including President Kabila's chief of staff, Prime Minister Muzito's economic advisor, and the Minister of Finance's bilateral/cooperation advisor) and, in cojunction with the embassy's Public Affairs Section (PAS), the local press to correct the inaccurate statements. On November 23, following continued erroneous reporting in the local media on the U.S. position, the Embassy's Public Affairs Section issued a press release correcting the inaccuracies and confirming the U.S. position.

Canada comes around

¶9. (C) At the same time, the Canadian Ambassador was working the diplomatic circuit to try to woo key donors to support Canada in advocating with the GDRC on improvements to the investment climate (ref G). During a November 19 meeting between the U.S. and Canadian ambassadors, the Canadian explained that her government was seeking key donors to pressure the GDRC to send a "signal" to the Paris Club creditors that it would get serious about improving the investment climate. During the meeting, Ottawa's ambassador stressed that Canada's position at the November 18 Paris Club was based on broader concerns over the DRC's investment climate (rather than a specific investment dispute) and presented several steps that the GDRC should take to send the right message to Paris Club creditors. While embassy obviously supports coordinated efforts among donors to push the GDRC to make necessary improvements to the DRC's dismal investment climate, we did not support the timing or use of the Paris Club for such efforts. EEB and Treasury concurred with embassy's position; all other donors approached by the Canadian Ambassador had a similar response to that of the United States. Canada provided financing assurances on November 25.

¶10. (SBU) Comment: The road to HIPC completion point has been long and arduous. But the journey is not over and there are many roadblocks and potholes yet to be overcome along the Qare many roadblocks and potholes yet to be overcome along the way, including the willingness of President Kabila and his government to engage with creditors and -- most importantly -- to take seriously their obligation to limit spending. In the second installment of this two-part series we will focus on the final stretch to reach completion point. End comment.
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